



U.S. DEPARTMENT OF COMMERCE

September 10, 1982

Executive Registry

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To : William Casey

From: Malcolm Baldrige

In accordance with the decision reached yesterday in the SIG-IEP meeting, the attached guidance is forwarded for review by members for use in responding to questions on the President's oil and gas sanctions.

Attachment

NSC review completed

TRANSMITTAL FORM CD-62A (10-67)  
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Not referred to DOC. Waiver applies.

File -  
Siberian  
Pipeline  
1982

ENFORCEMENT OF PRESIDENT'S FOREIGN  
POLICY CONTROLS ON SOVIET PIPELINE

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9 PRESS BRIEFING

10 WITH

11 MALCOLM BALDRIGE

12 SECRETARY OF COMMERCE  
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19 ROOM 4830

20 DEPARTMENT OF COMMERCE

21 WASHINGTON, D. C.  
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THURSDAY, SEPTEMBER 9, 1982  
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(4:00 p.m.)

3 SECRETARY BALDRIGE: Good afternoon.

4 Today, the Department of Commerce has issued  
5 a temporary denial order against John Brown Engineering  
6 Company, Ltd. of Scotland, and its three United Kingdom  
7 subsidiaries.

8 I want to explain the status of the actions we  
9 have taken so far, regarding the pipeline sanctions.

10 On August 26, we issued temporary denial  
11 orders against Dresser France and Creusot-Louire. These  
12 orders are temporary so that we can have time to investi-  
13 gate and modify them, if necessary.

14 Those temporary orders prohibited the export  
15 of all U.S. products, services and technology to those  
16 two companies.

17 On September 7, based on facts determined in  
18 our continuing investigations of those two companies,  
19 we proposed modifying the temporary orders to cover U.S.  
20 oil and gas related products, services and technology  
21 and to have the sanctions extend to their home-country  
22 subsidiaries, to assure compliance with the order -- in  
23 effect, closing some potential loopholes.

24 In the Dresser case, the temporary order has  
25 been amended and now applies only to oil and gas related

(2)

1 products, services and technology.

2 In the Creusot-Loire case, the modifications  
3 are pending so submissions being prepared can be reviewed.

4 On September 4, we issued a temporary denial  
5 order against Nuovo Pignone of Italy and its Italian  
6 subsidiary, INSO. That order also covers oil and gas  
7 related equipment, services and technology.

8 Today, as I've mentioned before, we've issued  
9 a temporary denial order against John Brown Engineering,  
10 Ltd. of Scotland and its three United Kingdom subsidi-  
11 aries.

12 As with the others, the temporary order prohibits  
13 export of all U.S. gas and oil related equipment, services  
14 and technology.

15 The modification of the sanctions, after our  
16 investigations, fully maintains the goals laid out by the  
17 President regarding oil and gas sanctions imposed on the  
18 Soviets, without unduly harming our allies and friends,  
19 and are consistent with the facts determined thus far  
20 in our investigations of these cases.

21 I want to say a word about President Reagan's  
22 purpose in implementing these foreign policy export  
23 controls, and his resolve to maintain them throughout  
24 the crisis in Poland.

25 The sanctions were imposed because of the Soviet

1 Union's complicity in the events over the past nine  
2 months in Poland, which have resulted in the jailing of  
3 many thousands of innocent, patriotic citizens and the  
4 forced solitary confinement of Lech Walesa; the imposi-  
5 tion of martial law; and the breakdown in communications  
6 between the military government, the Church and Solidarity.

7 Pipeline sanctions were selected because we knew  
8 with a fair amount of certainty that the Soviet Union  
9 would pay a high cost in time, money and effort if they  
10 were prevented from obtaining U.S. products and technology  
11 related to pipeline construction.

12 Could any other sanctions have been selected?  
13 Possibly. But this was the quickest, surest way to  
14 a penalty on the Soviets for their acts.

15 The President intends, has intended, and will  
16 intend to see the process of Polish national reconcilia-  
17 tion begin. And we, in the Commerce Department, will  
18 continue to administer the regulations which implement  
19 that policy as fairly as possible.

20 I'd be glad to answer any questions, and I have  
21 General Counsel here. The Undersecretary for International  
22 Trade is also here, so I'd be glad to take any questions.

23 QUESTION: How are the sanctions consistent  
24 with the President's originally stated policy, in light  
25 of the fact we are easing them to the extent that they

1 really don't have the muscle that they will, or that the  
2 President originally intended them to have?

3 SECRETARY BALDRIGE: No, I disagree. The policy  
4 really, on these temporary denial orders, is this: We  
5 start off usually with as broad an order as possible  
6 because we have to begin an investigation of all of the  
7 facts.

8 In some of the cases, it would literally have  
9 had the effect of forcing some of those companies into  
10 bankruptcy, or could have had.

11 The fact is, as far as the President's policy  
12 goes, the means of carrying out the policy of Polish  
13 reconciliation was the denial of oil and gas related  
14 equipment to the Soviets.

15 And by denying, on these temporary denial orders,  
16 oil and gas related equipment, technology and services,  
17 we feel that that fully is carrying out the President's  
18 policy.

19 QUESTION: You talk about these sanctions as  
20 imposing a penalty on the Soviets for their actions. When  
21 these sanctions were first imposed against the Soviet  
22 Union, they were justified on the basis of holding back  
23 hard currency from the Soviet Union and making it difficult  
24 for Western dependence on the Soviet Union to occur.

25 It can't do both, can it? In other words, if

1 they are a penalty for the Soviet Union invasion of  
2 Poland, then the situation in Poland would have changed  
3 when you put the sanctions, right?

4 SECRETARY BALDRIGE: Well, you're exactly right,  
5 but I think you began with a misconception that the  
6 original intent was denying the Soviets hard currency.  
7 That is the means, not the end.

8 The President clearly stated on December 30,  
9 on those sanctions, and the expansion of them on June 22,  
10 that they were directed against the complicity of the  
11 Soviet Union in the Polish situation.

12 The sanctions, themselves, are the means to  
13 have the Soviets modify that position, but the intent  
14 of the President in these sanctions, is to cause change  
15 in the Polish situation because of the Soviet complicity  
16 there.

17 QUESTION: Can you say which of the companies  
18 might have gone bankrupt and, secondly, can you put a  
19 value on the exports that are now denied John Brown and  
20 the other companies?

21 SECRETARY BALDRIGE: Well, I'm not going to  
22 answer your first question because I don't think that's  
23 fair to the companies, and our surmise is just that.

24 I think that it is fair to answer your second  
25 question, which is on the order of size. These sanctions



2 involved from perhaps \$75 million, in some cases, up to as  
3 high as \$600 million in lost sales over a three-year  
4 period.

5 Those are significant sanctions, significant  
6 preventative measures, we feel, to help us in resolving  
7 this issue.

8 QUESTION: May I follow that? Do you mean  
9 that is a total figure for all companies in the three  
10 countries?

11 SECRETARY BALDRIGE: No. Individual companies  
12 involved in the temporary denial orders, which are a  
13 preventative measure, would lose in sales, over a three-  
14 year period, from \$75 million to \$600 million.

15 Now, one individual company could lose \$75 mil-  
16 lion in lost sales, and another one \$600 million, but  
17 that's the range.

18 QUESTION: As the sanctions now stand, or as  
19 they were originally?

20 SECRETARY BALDRIGE: No, no, as the sanctions  
21 now stand. So, we feel that those are very strong  
22 sanctions, and they can be put into place without undue  
23 harm, but it is significant harm to the people involved.

24 QUESTION: The total runs over a billion  
25 dollars?

1 SECRETARY BALDRIGE: Yes, I would say that the  
2 total on all companies over a three-year period would  
3 run over a billion dollars.

4 QUESTION: Mr. Secretary, since Mrs. Thatcher  
5 has spoken strongly in defense of John Brown's right  
6 to exports, and the French government has maintained its  
7 position and, as far as I know, the Italian government  
8 maintains its position, in effect, you have a small trade  
9 war with Europe. You are not really affecting the  
10 Russians.

11 Is there any prospect of getting this off  
12 dead center and resolving this with our allies?

13 SECRETARY BALDRIGE: Well, we can always hope,  
14 but there are no present negotiations going on. We feel  
15 that until the Polish matter is resolved, that the  
16 sanctions are the proper way to go.

17 The President has stated in the past, as you  
18 know, that the sanctions would be lifted if he saw sig-  
19 nificant changes in the imprisonment of the people and  
20 in the release of the prisoners; the lifting of martial  
21 law, and a dialogue started between the Church, Solidarity  
22 and the Polish government.

23 QUESTION: My question is, is there any nego-  
24 tiations between the United States and its European  
25 allies, to resolve this issue, and there is no movement

1 on Poland?

2 SECRETARY BALDRIGE: Yes, there are no nego-  
3 tiations going on.

4 QUESTION: And what happens next, with our  
5 European allies?

6 SECRETARY BALDRIGE: Well, that's a good  
7 question. We feel very strongly about the Polish situa-  
8 tion. The President has got a firm resolve on that. We  
9 feel we are doing the right thing.

10 QUESTION: What evidence can you offer that  
11 the sanctions are having the effect that you want them  
12 to, which is to say, bringing about reforms in

13 SECRETARY BALDRIGE: Well, we have seen no  
14 progress in Poland on reforms yet. We feel that the  
15 sanctions will cause the Soviets a very significant  
16 delay, cost them significant extra amounts of money, loss  
17 in hard currency earnings, and we feel that that will  
18 have an effect.

19 To date, we have seen no change in the Polish  
20 situation that amounts to enough to lift them.

21 QUESTION: If I may follow up, though, if you  
22 have seen no evidence that they are working, why continue  
23 them?

24 SECRETARY BALDRIGE: Well, they haven't had  
25 a chance to work yet. The pipeline completion date that  
..... - .....

1 the Soviets have given the Europeans is in 1984. Most of  
2 that pipeline is yet to be built, so the effect of the  
3 sanctions has not been felt yet.

4 QUESTION: But they've had a chance to work in  
5 Poland, have they not?

6 SECRETARY BALDRIGE: Maybe I'm missing the  
7 point of your question. Most of the pipeline is yet to  
8 be built. The sanctions have yet to take their effect.  
9 And there is yet no movement in Poland.

10 QUESTION: Mr. Secretary, just to clarify,  
11 since the President has said the sanctions would be  
12 lifted if certain reforms occur in Poland, can one then  
13 conclude that if there were these reforms in Poland and  
14 the sanctions were lifted, the administration would not  
15 be concerned about the hard currency that the Russians  
16 would get from the pipeline, or the relationships which  
17 would be set up by the completion of the pipeline?

18 SECRETARY BALDRIGE: Yes, we would still be  
19 concerned, but we would not put sanctions on to express  
20 that concern. The sanctions are related to Poland. We  
21 would still be talking to and will continue to talk to  
22 the Europeans, about the whole East-West trade list of  
23 problems as we see them, but we are talking now about the  
24 sanctions, specifically.

25 The President has stated that if those three

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1 conditions were met in Poland, he would lift those  
2 sanctions. We would still be concerned about the amount  
3 of East-West trade going on, and how it is financed, and  
4 all the things that have led up to the question.

5 QUESTION: I wonder if you could break down  
6 that figure for the different companies involved --  
7 you know, how much --

8 SECRETARY BALDRIGE: You would have to ask the  
9 companies, themselves. They have stockholders, in some  
10 cases, and I don't think that's fair to do that.

11 QUESTION: Is there any hope of any sort of  
12 compromise with the Europeans? I mean, could they adopt  
13 alternative measures that you would approve of, which  
14 would lead to the lifting of the embargo on the pipeline?

15 SECRETARY BALDRIGE: That's always possible.  
16 We haven't seen them come up with any now, but if a  
17 unified approach that was as effective, or more effective,  
18 than the sanctions was proposed, we would have to listen  
19 very hard.

20 QUESTION: Mr. Secretary, many of us have been  
21 in Versailles, and I wonder, could you address the ques-  
22 tion, why the provisions of that part of the sanction  
23 have not been made clear enough on both sides.

24 Secretary Haig, then Secretary, left the im-  
25 pression at the last press briefing, that the matter of  
NEAL D. CROSS

1 the pipeline has been resolved, in the positive European  
2 sense. A decision by the President could be expected.  
3 The opposite was the effect, as we all know.

4 Why this misunderstanding apparently between  
5 the Europeans, on the one hand, and the Americans, on the  
6 other?

7 SECRETARY BALDRIGE: Well, I wasn't at the  
8 press conference, so I can't speak to that.

9 QUESTION: At the meeting in Versailles.

10 SECRETARY BALDRIGE: I can't speak on what  
11 Secretary Haig said there. I know that the feeling in  
12 the United States government is that our allies were  
13 aware, perhaps not of the exact date, but they were aware  
14 of our great concern about this, but, beyond that, I  
15 wouldn't care to say.

16 QUESTION: Mr. Secretary, do you have a figure,  
17 an estimate of the cost to American industry, of the  
18 December sanction -- the December order -- I'm sorry.

19 SECRETARY BALDRIGE: Well, we would probably  
20 not have a precise figure because we are dealing in  
21 estimates, but we'd see probably lost sales in the area  
22 of \$600 million.

23 QUESTION: From the December order?

24 SECRETARY BALDRIGE: Yes.

25 QUESTION: Over three years, or what period?

1 SECRETARY BALDRIGE: On the orders -- well,  
2 without regard to time, on the orders that had been  
3 placed that could not be delivered.

4 QUESTION: Mr. Secretary, in view of your  
5 remarks that this carries out the objective without  
6 unduly harming our allies, is this intended as kind of  
7 a move toward appeasement of the allies, in the hope  
8 that they will come along?

9 SECRETARY BALDRIGE: No, it's not a move toward  
10 appeasement. It is recognizing the facts after investi-  
11 gation. Remember, as I pointed out, these are temporary  
12 denial orders. We investigate, then we modify as the  
13 circumstances turn out.

14 In this case, there is no need to -- the phrase  
15 I use -- unduly harm our allies. They are our allies  
16 and partners. We are aiming at these sanctions at oil  
17 and gas.

18 If we made a total denial order on some of  
19 these companies, it would have been, we feel, too strict  
20 an action. Now, I don't think that's appeasement, that's  
21 investigation and trying to do what is fair and right  
22 in a difficult situation.

23 QUESTION: Mr. Secretary, have you had any  
24 indications from the governments in Europe, of possible  
25 retaliatory trade on their part?

1 SECRETARY BALDRIGE: We haven't, officially.  
2 There's always talk here and there.-- I don't know how  
3 loose it is -- but I think neither our allies nor the  
4 United States wants to see a trade war. That would help  
5 neither one of us.

6 QUESTION: Mr. Secretary, isn't it a fact that  
7 you and Secretary Schultz spoke with Mr. Clark, to have  
8 the order modified, over the objections of the people  
9 in the Defense Department?

10 SECRETARY BALDRIGE: Any advice I give to the  
11 President, I feel, is privileged information. He can  
12 take it or not, and I always answer "No comment" to  
13 kinds of questions.

14 QUESTION: Mr. Secretary, how many more companies  
15 who have pipeline contracts and fulfill them will therefore  
16 be defined in the President's sanction?

17 SECRETARY BALDRIGE: There are still several  
18 possibilities in Europe. I'm talking about the major  
19 parts of the pipeline -- if that addresses your question.  
20 There are still -- I don't know whether it is two or  
21 three -- but that we have not seen or heard whether they,  
22 in fact, will ship.

23 And on these temporary denial orders, we are  
24 being very careful, because we are talking about our  
25 trading partners now, in making sure that the shipment has



1 left, before we put on a temporary denial order. So, I  
2 don't want to speculate about any particular company  
3 and the action they take. There is always time to change  
4 before the ship leaves the dock.

5 QUESTION: Mr. Secretary, the changed tone of  
6 these new denial orders to oil and gas commodities and  
7 services, do you expect this to be the tone of the  
8 potential future denial orders for a while, or do you  
9 expect further modification?

10 SECRETARY BALDRIGE: No. I think, in striving  
11 for consistency, which we want to do on this, that the  
12 general tone of the denial orders will be denials on all  
13 oil and gas equipment. That is a very strong action,  
14 as I've stated before, and we think that, at least at  
15 this time, going beyond that, would not be worthwhile.

16 QUESTION: Mr. Secretary, if the Europeans  
17 agreed to an ending of subsidized credits to the Soviet  
18 Union and to tighten up on the transfer of high technology  
19 to the Eastern Block, would this constitute a sort of  
20 unified action which could justify the lifting of the  
21 temporary denials?

22 SECRETARY BALDRIGE: I really don't think it  
23 is appropriate to comment on what kinds of actions we  
24 could consider. There are so many variables. There  
25 are no negotiations going on now. It would be inappropriate

3 QUESTION: Mr. Secretary, am I right in assuming,  
4 first off, that the whole question of enforcement on this  
5 matter is wide open? And that being the case, down the  
6 road --

7 SECRETARY BALDRIGE: I don't know what you  
8 mean by "wide open".

9 QUESTION: In terms of its being tied up in  
10 litigation in terms of our allies challenging the posi-  
11 tion of these sanctions and, therefore, you question  
12 the effect of the whole thing, and we are back to square  
13 one again, the purpose of the whole thing.

14 SECRETARY BALDRIGE: Well, we feel we are on  
15 firm ground in this area. I'm sure there will be liti-  
16 gation, but we feel that our authority and the actions  
17 we've taken are consistent, and we feel that they will  
18 be carried out.

19 QUESTION: Mr. Secretary, to follow up on that  
20 question, when the first sanctions were announced, I  
21 think Mr. Homer said the purpose was to deter further  
22 shipments. Well, quite evidently, that hasn't worked,  
23 and there is no prospect of it working.

24 If deterrence isn't working, what is the point  
25 of penalizing the European countries? What effect are  
the penalties having if they don't seem to be stopping

1 the pipeline shipments?

2 SECRETARY BALDRIGE: I disagree with your --  
3 I think, the underlying premise of your question, that  
4 deterrence does not work. Most of these companies --  
5 as a matter of fact, all of the companies that we've  
6 put temporary denial orders on have orders in much  
7 larger numbers -- turbines, compressors, whatever it is  
8 -- left to ship, than the initial shipment that they've  
9 made. So, the deterrence, in the case of each of the  
10 companies, is yet to be seen. Simply because this company  
11 in another country has shipped is not a question of the  
12 failure of the deterrence.

13 You have orders for two, and there are still  
14 16 to ship. We have to wait and see what happens to those  
15 16.

16 QUESTION: Have you indication that the subse-  
17 quent orders of Dresser France or the Italian companies  
18 will not be shipped?

19 SECRETARY BALDRIGE: No, we have no indication  
20 that they will, or that they will not.

21 QUESTION: If they are not shipped, will you  
22 be dropping your orders against these companies, if  
23 further shipments do not follow?

24 SECRETARY BALDRIGE: Yes. Well, of course,  
25 we would have to have assurances from the companies, but

1 I would not want to cross that bridge about when we would  
2 drop it, or the method, because those involve some  
3 negotiations. I would not want to prejudge, but, obvi-  
4 ously, we would want to -- if people wanted to obey our  
5 sanctions, we would want to work something out.

6 QUESTION: If the companies were to go ahead  
7 and ship more turbines and compressors, would the sanctions  
8 be stiffer?

9 SECRETARY BALDRIGE: We have to leave open  
10 any possibility of broadening the sanctions, if necessary,  
11 but the --

12 QUESTION: Is this the deterrence?

13 SECRETARY BALDRIGE: Let me say, again, that  
14 these sanctions, the strength of these sanctions from,  
15 in one case, \$75 million, to another case, \$600 million  
16 in lost sales over a three-year period, is a very power-  
17 ful action on the part of the United States, and we have  
18 yet to see the results coming from that.

19 Thank you.

20 (Whereupon, at 4:30 p.m., the press briefing  
21 was concluded.)  
22  
23  
24  
25

CERTIFICATE OF REPORTER

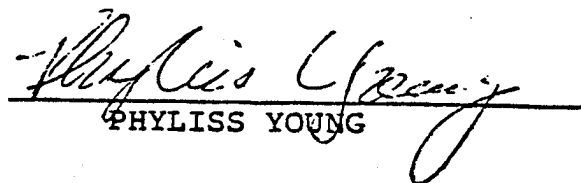
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In the matter of: PRESS BRIEFING WITH MALCOLM BALDRIGE  
SECRETARY OF COMMERCE

Before: DEPARTMENT OF COMMERCE

Date: THURSDAY, SEPTEMBER 9, 1982

Place: ROOM 4830  
DEPARTMENT OF COMMERCE  
WASHINGTON, DC

represents the full and complete proceedings of the  
aforementioned matter, as reported and reduced to type-  
writing.

  
PHYLISS YOUNG

## Why Sanctions were Imposed

### QUESTION

Why were the sanctions imposed?

### ANSWER

The sanctions on oil and gas equipment and technology against the Soviet Union were imposed by the President because of the Soviet-backed Polish military government takeover which resulted in the imposition of martial law and the imprisonment of thousands of innocent Polish citizens. The President specifically chose the oil and gas sectors because the costs to the Soviets would be the greatest in this area.

Commerce/ITA/0341J

Lifting the Sanctions

QUESTION

Will the sanctions be lifted if the three conditions specified by the President when he imposed the sanctions are met?

ANSWER

Yes, the President stated at a press conference on January 11, 1982, that he will lift the sanctions if three conditions are met. They are: lifting of martial law in Poland, the release of the prisoners and the opening of an honest dialogue between the Polish government, Solidarity, and the Church. The President stated: " Substantial progress towards those goals would lead to a review of our sanctions".

Commerce/ITA/0341J

Pipeline Negotiations

QUESTION:

Is the United States negotiating with the Europeans over the oil and gas export sanctions against the USSR?

ANSWER:

No. There are no negotiations with the Europeans now underway. We would, of course, listen to any suggestions from our allies for unified action that would be as effective as the sanctions in meeting the President's objective of reconciliation in Poland.

Commerce/ITA/0099h



What is a temporary denial order?

ANSWER:

A temporary denial order is requested by the Department from the Hearing Commissioner on an ex parte basis. A temporary denial order denies export privileges to companies upon a showing to the Hearing Commissioner that the order is required in the public interest to permit or facilitate enforcement of the Export Administration Act or Export Regulations; to avoid circumvention of any administrative or judicial proceedings; or to permit completion of an investigation. It is temporary so that a fair investigation can be made of all the circumstances involved before a final determination is made whether to initiate formal charges of violations.

The recent Commerce actions issuing temporary denial orders against Creusot-Loire, Dresser (France), Nuovo Pignone and John Brown Engineering have been taken to enforce the Department's export regulations. These actions are not punitive. They were taken with the purpose of facilitating enforcement of the law and of the investigations into suspected violations by the firms. No decision regarding any imposition of penalties has been made.

Commerce/ITA/0099h

QUESTION:

What is a denial order?

ANSWER:

A denial order is one of several administrative sanctions which may be imposed by the Department of Commerce following an investigation and an administrative procedure whereby a named party (or parties) has been found to have violated the Export Administration Act or the Export Administration Regulations. A denial order prohibits specified parties from participating in any transaction involving commodities or technical data exported or to be exported from the United States or which is produced abroad by persons subject to the jurisdiction of the United States, or which is subject to reexport control. A denial or export privileges may be partial or entire, may be by commodity or geographical area, and may be for any specified period of time.

The Act and Regulations provide for a range of administrative sanctions which may be imposed against persons who have been formally found to have violated the export control laws, following charges and administrative proceedings. Among the sanctions are civil penalties and denial of export privileges. Thus, in sharp contrast to temporary denial orders, which are not punitive, denial orders issued against parties who are found to have violated are, indeed, in the nature of punitive sanctions.

Commerce/ITA/0099h

QUESTION:

Who initiates a request for a temporary denial order?

ANSWER:

The Office of Export Enforcement of the Commerce Department is responsible for the enforcement of the Export Administration Act. That Office makes a recommendation to the Office of General Counsel to initiate specified enforcement action. The Office of General Counsel reviews the matter for legal sufficiency and, if appropriate, makes the formal request to the Hearing Commissioner to issue a temporary denial order.

Commerce/ITA/0099h

QUESTION:

Who are the main contractors on the pipeline and the Western suppliers.

ANSWER:

The prime contractors for the pipeline are a consortium of the German firm Mannesman and the French firm Creusot-Loire for the Northern segment and the Italian firm Nuovo Pignone for the Southern portion.

The pipeline requires a total of 41 compressor stations (22 for the Northern portion and 19 for the Southern). The line calls for 125 compressors (3 compressors each for 40 stations and 5 compressors for one head station). The same number of gas turbine engines are required to drive the compressors. Western manufacturers of the compressors and gas turbines are:

COMPRESSORS

Creusot-Loire	42
Dresser (France)	21
Nuovo Pignone	57
Demag	5

GAS TURBINES\*<sup>1</sup>

AEG Kanis	47
John Brown Ltd.	21
Nuovo Pignone	57

\*General Electric to provide 125 rotor sets for the gas turbine engines.

<sup>1</sup>The French firm Alsthom-Atlantique contracted in November 1981 to supply 40 rotor sets.

Commerce/ITA/0099h

QUESTION:

What is Dresser and what is its relationship to the pipeline and Creusot-Loire?

ANSWER:

Dresser (France) S.A., located in LeHavre, France is the manufacturer of centrifugal gas compressors and a full range of Dresser products and energy related equipment including:

- A. Centrifugal Compressors for
  - 1. gas pipelines
  - 2. gathering/injection
  - 3. plant processing
- B. Gas turbine build up and packaging using Rolls Royce gas generators
- C. Underground mining machinery
- D. Drilling rigs including derricks and platform structures

Dresser (France) S.A., is a second tier subsidiary of Dresser Industries, Inc. in Dallas, Texas. It is the subsidiary of Dresser AG (VADUZ) of Vaduz, Liechtenstein whose parent is Dresser Industries, Inc. Dresser (France) received technology from Dresser Clark Div. in Olean, N.J., for the manufacture of the centrifugal gas compressors. This technology was exported prior to December 30, 1981.

Dresser (France) is subcontracted to Creusot-Loire of France to provide 21 centrifugal gas compressor units for mating with the 25MW gas turbines, and the internal components for 5 centrifugal gas compressor units to be mated with 10MW gas turbines for use in gas pumping stations on the pipeline.

Dresser (France's) address is Dresser (France), S.A.  
CIDEX L 192  
Centre SILIC  
5, Rue D'Antony  
94563 Rungis, France

Who is Creusot-Loire S.A. and how is it hooked in the pipeline and its relationship to Dresser (France).

ANSWER:

Creusot-Loire, S.A., located at 42 Rue d'Anjou, F75008 Parish 8, France, is the parent of a large diversified metalworking complex of companies with over a hundred subsidiaries in France and other countries. The company is engaged in the manufacture of steel products including cranes, pumps, extrusion materials and engines. In 1979, the company had 24,247 employees.

Creusot-Loire along with Mannesman is the general contractor for 22 stations in the northern segment of the pipeline.

Creusot-Loire has ordered 21 centrifugal compressors from Dresser (France), three of which have been completed and are being delivered to the USSR. These compressors are in addition to the 42 compressors Creusot-Loire will provide. The compressors were ordered from Dresser (France) in Creusot-Loire's capacity as the prime contractor for the northern portion of the pipeline.

Commerce is investigating the extent of the participation of Creusot-Loire in the Dresser violation of U.S. export regulations.

Commerce/ITA/0099h

QUESTION:

What effect will the modification in the temporary denial order have on Dresser France? On Creusot-Loire?

ANSWER:

The modification will have a significant impact on Dresser France. Their Le Havre facility manufactures a substantial amount of oil and gas equipment, but up to 40 percent of their revenues in this coming fiscal year may come from industrial applications.

Creusot-Loire is a much more diversified company. It purchases not only oil and gas equipment, but nuclear related items, machine tools, and computers used for administrative purposes and technology operations. These non oil and gas products will be affected by the modified TDO.

Commerce/ITA/0099h

QUESTION:

Why were the temporary denial orders against Dresser France and Creusot-Loire modified?

ANSWER:

A temporary denial order is a frequently used vehicle to protect our national interests during the course of an investigation. When alleged violations of our export regulations exist, the issuance of temporary denial orders will prevent U.S. parts and technology, still physically within U.S. borders, from being shipped to violating parties. It is not a punitive action. They are intended as preventive measures to avoid additional possible violations.

Our initial decision to prohibit export of all U.S. products, services and technology to Dresser France, and Creusot-Loire was based on information we had available to us at that time, in effort to prevent additional possible violation of our regulations toward the USSR. As you know, these regulations are limited to oil and gas technology and equipment.

After investigation, we believe that limiting our denial order to oil and gas equipment and technology is consistent with the President's objectives of preventing, to the extent possible, additional violations without unduly harming our allies and friends.

Our objectives remain the same. We intend to prevent violations of our oil and gas regulations. By modifying the denial order, we are simply refining the implementation and not the basic objective. The President specifically chose the oil and gas sectors because the costs to the Soviets would be the greatest in this area.



Difference in the Denial Orders

QUESTION

Are the temporary denial orders against Dresser and Creusot-Loire the same as the one against Nuovo Pignone?

ANSWER

The temporary denial orders against Dresser and Creusot-Loire are being modified to limit them to oil and gas equipment and technology, the same as in Nuovo Pignone's case.

Commerce/ITA/0291J

Secretary's Decision Regarding John Brown and Nuovo Pignone

QUESTION:

What is the Secretary's decision regarding John Brown and Nuovo Pignone?

ANSWER:

The Secretary of Commerce announced the issuance of temporary denial orders against John Brown Engineering (September 9, 1982) and Nuovo Pignone (September 4, 1982) prohibiting export of all U.S. origin equipment and technology related to oil and gas exploration, production, transmission and refining.

Commerce/ITA/0099h

Effects of Temporary Denial Order on Nuovo Pignone

QUESTION:

What effect will the temporary denial order have on Nuovo Pignone?

ANSWER:

Nuovo Pignone is a diversified energy company which relies more heavily on Italian rather than U.S. technology except for turbine production. It is believed that a third of their revenue is derived from pipeline turbines, most of which are oil and gas related. The temporary denial order will have a significant impact on Nuovo Pignone as over \$500 million in business over the next 3 years is in oil and gas turbines, using G.E. rotors which cannot be shipped under this order.

Commerce/ITA/0099h

Nuovo Pignone Products Line

QUESTION

What is Nuovo Pignone, what is its product line, and how large is it?

ANSWER

Nuovo Pignone is part of the Italian Government-owned ENI oil company. ENI is a multi-billion dollar company with operations world wide. Pignone's specific products fall into three general categories: gas turbines, compressors, and oilfield pumps, valves and coolers. Its yearly revenue is estimated at \$900 million.

Commerce/ITA/0291J

QUESTION

How much of the Soviet natural gas pipeline is contracted to Nuovo Pignone?

ANSWER

Nuovo Pignone is one of the prime contractors for the Soviet pipeline and is contracted to deliver 19 complete gas compressor stations, estimated at \$600 million. As part of that contract, Pignone is also scheduled to deliver 57 gas turbines and 57 compressors for the pipeline.

Commerce/ITA/0291J

Nuovo Pignone Ships Turbines

QUESTION

When did Nuovo Pignone start shipping their products to the Siberian pipeline?

ANSWER

The first shipment of gas turbines left Saturday, September 4, 1982. Consequently, the Department of Commerce issued a temporary denial order against Nuovo Pignone Saturday night. A temporary denial order prohibits the person or company on whom it is served from participating in exports in the designated sectors (in this case gas and oil) from the United States.

Commerce/ITA/0291J

Nuovo Pignone

QUESTION

Did the Italian Government order Nuovo Pignone to ship?

ANSWER

No. It is my understanding that the decision to ship was made by the company itself.

Commerce/ITA/0291J

John Brown Engineering

QUESTION:

What is John Brown Engineering Ltd and what is its relationship to the pipeline?

ANSWER:

John Brown Engineering, located in Clydebank, Scotland, is the manufacturer of heavy and light industrial gas turbines for power packages and mechanical drives rated from 10 to over 100MWs. They are a manufacturing associate of the General Electric Company and depend completely on G.E. to provide the rotor section or core of the individual gas turbines for their complete gas turbine line. John Brown Engineering manufactures most other components, and assembles and packages the complete gas turbine unit using technology for assembly provided also by G.E. under its manufacturing associate agreement.

John Brown Engineering is a wholly owned subsidiary of John Brown and Company Ltd. of London, U.K. John Brown and Company have 16 subsidiaries in the U.S. and John Brown Engineering has 3 subsidiaries, but none in the U.S. John Brown Engineering employs approximately 1,700 people and is the major subsidiary of John Brown and Company.

John Brown Engineering has a \$182 million contract to supply 21 model MS5002 gas turbines for the Siberian natural gas pipeline beginning in August 1982. They have 6 completed



units on hand which were in their possession prior to 30 December 1980. These units were modified for rail shipping and cold weather operations and have now been shipped (September 9) to the Soviet Union.

Commerce/ITA/0107h

John Brown and Creusot-Loire

QUESTION:

What is John Brown Engineering's relationship to Creusot-Loire S.A. of France and how is it connected to the pipeline?

ANSWER:

Creusot-Loire along with Mannesman of West Germany is the general contractor for 22 pipeline compressor stations in the northern segment of the pipeline. Creusot-Loire has ordered 21 Model MS5002 gas turbine engines from John Brown Engineering, six of which are completed and being delivered.

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Effects of Denial Order on John Brown Engineering

QUESTION:

What effect will the temporary denial order have on John Brown Engineering?

ANSWER:

John Brown Engineering's business is both power generation and oil and gas related turbines. The impact on John Brown Engineering's oil and gas related areas will be substantial, since they will not be able to complete their contracts to the Soviet Union. They can still sell power generating equipment which is their predominant line of business.

Commerce/ITA/0099h

## Japanese Exports to USSR for Pipeline

### QUESTION:

There are reports from Tokyo that a Japanese firm, Japan Steel Works using American technology has shipped pipeline valves to the Soviet Union. What does the Department of Commerce intend to do about this violation of the President's oil and gas sanctions?

### ANSWER:

I understand Japan Steel Works may have a licensing agreement with an American firm which produces valves, including pipeline valves. Based on a preliminary assessment the U.S. firm, Grove Valve and Regulator Company, in fact manufactures conduit pipeline valves designed for pipeline usage. Such valves would probably be covered by the sanctions announced December 30 and extended June 22. If that is true, such an export to the Soviet Union could be a violation of the Department's regulations. The Department of Commerce is taking steps to determine if the Japanese shipment violates U.S. sanctions.

Commerce/ITA/0138h